

The University of Chicago

MARKETING AND CONSUMPTION
TRENDS IN THE AUTOMOBILE
INDUSTRY, 1929-1933

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE SCHOOL OF BUSI-
NESS IN CANDIDACY FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

1935

By
HAROLD ATHERTON BAKER

Private Edition, Distributed by
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CHAPTER X

CONCLUSION

In bringing to a close this study of the marketing of automobiles during the depression, it might be well to review, briefly, the more outstanding phenomena that have been noted, following, for purposes of easy reference, much the same sequence undertaken in the more detailed part of the work. This will be followed by such comments as appear logical and desirable in terminating the discussion.

Between October, 1929, and January, 1934, twenty-six makes of passenger automobiles and fourteen manufacturers disappeared from the picture, while twelve new makes and three new producers appeared. Included among the departures were many of the oldest names in motordom, such as Kissel, Locomobile, Stearns, Durant, and Peerless. To these should be added that of Franklin which ceased production early in 1934. The departure of these cars served to narrow greatly the field of motor car production and sale, with a consequent heightening of the competitive stress within the industry. The secondary effects of this action on consumers, left with orphan cars on their hands, and dealers, forced to seek other connections, can only be surmised. The prime causes of the failure of many of these companies are quite obscure, reaching, in many instances, far back into the years before 1929. It seems reasonable, however, to assume that the depression, with its accompanying sales declines, must have hastened the end for several of the producers who were already on shaky ground.

Motor car sales generally declined from 1929 through 1932 and showed a slight upturn in 1933. The beneficiaries of this increase, however, were, with a single exception, the products of factories offering cars in the two lowest price classes, Chrysler being the only relatively higher-priced car to share in this increase. These cars, also with one exception, Essex, were the products of the so-called "Big Three" of the motor world, Chrysler, Ford, and General Motors. These three groups of producers appear to have consolidated their positions during the depression and to be emerging stronger than ever. On the other hand, many of the so-called "independents," comprising those manufacturers not included in the "Big Three," appear to have substantially lost ground, bringing to mind the prophecy of a prominent member of the industry, made prior to 1929, that in a few years there would be only a very few producers of motor cars, perhaps a half-dozen. Unless the competitive positions of many of the independents are materially improved in the years following 1933, it appears probable that many of them will disappear from the scene, an eventuality that the disastrous years 1929-1933 has undoubtedly hastened.

The dealer set-up also has undergone a change, there being recorded declines both in the number of dealers and in representations. Because of the inadequacy of the data, only net figures being available for the entire period, it is impossible to do more than guess how many dealers actually retired from the scene or if there was a perceptible decline in entrances. Also lack of information prevents an analysis into the major causes of the decline in numbers of dealers. It may be assumed, however, that among the more prominent of these were, lack of financial strength, managerial ineptitude, and similar factors, which have been reported as long characterizing no small portion of the dealer body,

as well as the influence of severe sales declines, particularly in those parts of the country most severely affected by the business recession.

A rather scanty analysis of the geography of the decline of dealers points toward the heaviest losses being observed in the smaller towns averaging under 1000 inhabitants, and in the larger cities, above 50,000 in population. The question arises as to whether any appreciable number of these departed dealers may have been economically unnecessary, even before 1929. The opinion was freely expressed in 1930 among a group of dealers selling a low priced car in an eastern city that there were more dealers than were needed to both merchandise the cars profitably and adequately serve the public. So it may be possible that much of this decline was simply the shaking out of the more or less marginal members of the trade and as such, regardless of the personal hardships involved, was an economic gain. Observation of any numerical changes that may take place in the dealer body in the next few years may bring this point into clearer relief and disclose whether or not the reduction in dealers was sufficiently far reaching in extent to result in any hardship to the public on this score. The extent to which the "independent" producers of motor cars may have suffered losses in representations may also be something of an indication of why their sales failed to respond to an increased demand evident in 1933. That the reduction in dealerships was not more severe and has not resulted in a changed distributive set-up for automobiles may perhaps be credited to the fundamental strength of the dealer organization as well as to their ability to adapt themselves to changed conditions.

A significant fact to be noted in this connection is the growth of multiple-line dealerships, which are partly the result

of dealer initiated action and, in certain cases, of factory instigation.

Attention should be called to what might be termed something of a purifying process that was in operation during this period. For years prior to the depression complaints had been heard of the unfairness of the factory-dealer contractual relationships. Such producer policies as rigid quotas, the 30-day cancellation clause, not gearing production to dealer and consumer demand, not reimbursing dealers for losses sustained on cars in stock when new models were introduced or price cuts effected, and many others, had long been controversial subjects in this connection. From the evidence at hand, it would appear that the motor car industry, production and distribution, has become much better articulated, more closely knit, in part, at least, as a result of conditions obtaining between 1929 and 1933. While all of the points at issue have not been cleared up, it seems that at least the production schedules are now more closely in tune with the flow of cars to consumers, with less of the lag being absorbed by the dealers than formerly. Mr. H. G. Weaver, head of customer research for General Motors has said, in effect, that a new sales philosophy, that of "low pressure selling" pervades the policies of his company, which is the antithesis of the "high pressure" methods formerly in vogue.¹ Whether or not these new conditions are to be permanent remains to be seen.

Another interesting sidelight on the distribution scene is the comparative absence of factory-owned dealerships. While reliable data on this point are lacking, different members of the industry have expressed the belief that there was little, if any,

¹ In a speech at the University Club of Chicago, December 28, 1934.

increase in this form of distributive outlet as the depression progressed. This seems to be somewhat at variance with certain trends that appeared soon after 1929 when several manufacturers found it necessary to take over certain prominent dealerships in order to maintain representations at key points. It may also be possible that some dealerships are actually factory owned, while appearing to be under private ownership. At least one outstanding dealership in a large eastern city is known to be in this situation.

The Vendor situation may therefore be summarized by saying that while the numbers of producers and dealers have been reduced, it remains to be seen if any economic loss has been sustained by this process.

Turning to the Product, it is found that certain definite trends have been operative, which have continued to bring about a condition of "more car for less money." The cars, almost without exception, have been increased in weight, wheelbase, and power while being decreased in price. Indications are that major improvements have, generally speaking, been lacking, and that much of the improvement noted is in the way of "gadgets" or minor additions. It might have been expected that there would have been a simplification in the producers lines in the interests of economy, but analysis reveals little change in such matters as number of engine models per make, or body types per make and chassis length. It might also have been presumed that a "depression car," one devoid of nonessentials, making its appeal solely on the basis of economy, would have been welcomed. Such an one did appear, but it was short lived, due, in part, to faulty sales promotion and to the lack of prominence of its makers. Had one or more of the more prominent producers attempted such a move, it is possible that more

success might have attended its production, although any such judgment is purely surmise. The fact remains that instead of tending toward offering "raw" transportation, the cheaper cars of the period presented many features hitherto associated exclusively with the more expensive makes and sought to attract custom by offering "more car for less money."

The effect of the depression upon consumer purchase and use of automobiles is a subject upon which only the most fragmentary information is available. Such statistics as are to be found have been assembled for purposes other than the study of consumer action and attempts to utilize them to this end have borne admittedly scanty fruit. It has been possible to make a partial study of certain mass movements of consumers in this regard by depicting changes in purchase and use of cars by census divisions, and selected Agricultural and Industrial producing areas, which would appear to show some significant differences as between the different areas compared and some relationship between consumer actions and various indices of agricultural or industrial activity in these sections. But in the main, it must be stated that more definitive results await the development of more adequate statistical data and that the results portrayed in this study are far from conclusive. It might be stated, however, that at least two of the larger producing companies have recently interested themselves in this subject and are endeavoring to secure factual information about it. They are finding it both a slow and an exceedingly expensive procedure. About all that can be stated with any degree of certainty is that consumer purchase and use of motor cars declined during the depression and that there is some evidence that the average age of cars rolling and scrapped increased during the period, apparently disclosing that consumers drove their cars

longer and scrapped them at a greater age than had been the case prior to 1929. To what extent these are depression phenomena and to what extent the growth of trends admittedly discernible before the depression, is difficult to say.

Any attempt to estimate the elasticity of demand, either for the automobile as a product or for different makes is rendered impossible due to the complexities of the motor car marketing scene and the lack of statistical evidence.

Thus it will be seen that the consumer, important as he is, must remain something of an enigma until such time as more intensive researches and more refined methods of analysis, backed by large funds, are available to seek out this elusive factor in the marketing situation.

A glance at the demand creation and maintenance activities of the period reveals a sharp curtailing of advertising effort, as disclosed by analysis of such newspaper and magazine advertising data as are available. This took the form of reduced newspaper lineage and curtailed magazine insertions both as to frequency and size. A change is also discernible in the motifs stressed during the depression. Institutional advertising practically vanished, and such subjects as luxury, prestige, and beauty of design gave way to treatises on price reductions or low price, economy, comfort, durability and safety. This was to be observed among makes of cars of all prices, many of whom had hitherto sedulously avoided anything savoring of cheapness in their appeals. But the decline in sales forced many producers to turn to appeals of price and economy in their efforts to garner their share of the subsiding tide of sales. And it is just possible that consumers bought cars on the basis of price and economy to a greater extent than formerly. At least these were the virtues stressed in the

advertising as the depression continued. Whether or not different tactics would have produced any more favorable results is problematical. The motor car producers as advertisers, appear to have run the gamut of appeals in their efforts to vend their wares and the more successful alongside of the less so seem to have employed about the same strategy. And perhaps in a period of shrinking consumer incomes and increasing uncertainty concerning the future, there was little else that could have been done to stimulate motor car sales. Perhaps the appeals used were those most in tune with changing public thought and doubtless the curtailment of advertising expenditures was dictated by falling sales figures. The question arises, to what extent can advertising stem the ebbing tide of sales in a depression? Does it not rather resolve itself into a scramble among producers to gather for themselves as large a share of whatever market remains as possible? Thus does advertising reflect, in a sense, the narrowing and increasing intensity of a diminishing market.

The sales promotional plans in evidence during this time appear to stress the advisability of strengthening the hands of the salesmen and many were the schemes put into effect with this aim in view. A few "trick" plans appeared, notably the mail order idea promoted by Peerless and the terminal dealer set-up contemplated by Continental, both of which were doomed to early extinction.

The merchandising policies of the manufacturers underwent some slight changes. Factory-dealer relationships unquestionably improved, and the change of Ford from the Model T type of thinking to greater consonance with the thought tempo of the industry was noteworthy. But the system of yearly models has continued along with the sales philosophy behind it. One point stands out,

however. No new system of merchandising automobiles has emerged, thus far, from the depression. The old set-up, faulty as it may have been, has persevered and bids fair to continue. Cars are still sold through independent distributors and dealers, substantially as they were before 1929. So while the system may have sagged and creaked at its weak points, it has not given way to another. It would appear that less pressure was being exerted by the factories on the dealers, such as is hinted at in the various publications of the customers research bureau of General Motors. And in this last may be found that which is different. Dealers have long complained of the pressure that has characterized their relations with the factories, and should a changed philosophical outlook on the parts of the producers result in a lessening of this strain, it is possible that the whole distributive structure may be strengthened. And it is also quite probable that just as many cars will be sold as under the conditions that formerly obtained. For much of this pressure, in the past, has not been passed on to consumers but has been dammed up among the dealers and served merely to make heavier the load under which so many of them were struggling. The more careful timing of production to the demand of dealers and consumers, mentioned above, is one of the ways in which the new philosophy of merchandising expresses itself and if the depression has served, in any way, to hasten its coming into being, it has been in this respect a beneficent influence, viewed from the long time angle. It is thus possible, from this standpoint at least, to regard the depression as having been not entirely an unmixed evil. Whether a rapid rise in sales, after business conditions improve, will result in a repudiation of these changes, remains to be seen.

In viewing the price situation, it is to be observed that average prices started a downward trend in 1928 which continued unbroken through 1933. This is a resultant of two factors, price reduction by the producers and a shift in the market away from the higher price classes toward the lower ranges. Individual makers all reduced their prices to a greater or less extent, dictated by any one or many possible motives. But there emerged, as the period drew on, a very definite trend in public buying toward the lower price groups, which may have far-reaching implications. Not among the least of these is the probable effect of this trend upon the makers of high priced automobiles. For such cars as are produced by the so-called "Big Three" the threat is somewhat lessened by the financial strength of the parent companies, although even here long continued low sales may well raise the question of the advisability of their continuance. But to the independent producers of cars in this price field, such as Deussenberg, Pierce Arrow, Packard, Auburn, Hupmobile, and others, selling above \$1000, it presents a serious problem. How can these makers hope to maintain large producing plants on the scanty sales returns that have been their lot for the past few years? One way out, and possibly the only one, is to bring out cheaper cars. And this would appear to leave the field of high priced automobiles to the Cadillac, Lincoln, and Imperial Chrysler. And should the makers of these cars decide that their production was not worth while, a not impossible eventuality, consumers might find themselves unable to purchase the type of big car that they have been accustomed to look upon with pride or envy, as the case might be. Thus would the automobile industry, which started with large expensive products, find itself forced to abandon its historic precedents and face the reality that only relatively low priced cars can pay

their own way and that the production of high priced units is economically unsound. Here again, the return of better times must be awaited for the final answer, and the action of the depression has merely served to hasten the economic evolution of the industry, the roots of which date back long before 1929. But should the present trends continue, the possibility stated above may become in the nature of a preponderant probability.

There remain to be discussed four topics, of relatively minor importance, Retail Financing, Insurance, Taxation, and Used Cars. In the first, aside from a lowering of the totals of cars financed and of dollar volume accepted, together with an increase in repossessions up to 1933, nothing startling has emerged from the depression. There have been no significant changes in terms or in percentages of cars financed. Banks have apparently withdrawn still further from the field of automobile financing, thereby persisting in a policy long advocated. The argument between the Recourse and Non-Recourse systems of financing appears as far from termination as ever. Aside from these items, there is little conclusive evidence of any great changes in the field of retail automobile financing. Contrary to the expressed beliefs of some observers that the depression would see a great curtailment of installment selling, this institution seems to be as healthy and powerful as ever.

The field of Automobile Insurance, aside from a rather notable increase in the Fire and Theft ratio of losses paid to premiums written, likewise is devoid of remarkable developments. The rate situation is of such complexity as to defy analysis. Total business has fallen off, but this is easily explainable as a concomitant of reduced sales. The growth of compulsory insurance aside from that evident in the state of Massachusetts, appears to be at least temporarily halted.

The taxation of automobiles and allied products is a subject that has been of increasing importance in recent years. A view of the taxation scene reveals a great multiplicity of taxes, Federal, State, County, and Municipal. The industry appears to be heavily taxed. Many of these taxes date back prior to 1929, while others are of more recent origin. Gasoline taxes, in particular, have been prominent in this picture. While these taxes originated shortly after the termination of the World War, the years since 1929 have seen many states increase these levies, and the addition of a Federal Tax. It has been argued that the unit amounts of some of the state taxes are so high as to adversely affect the sale and use of automobiles. There is, however, little conclusive evidence that such is the case. There has been little change in state license fees, except as some states have temporarily permitted the use of old plates for varying periods of time after the New Year. The extent to which the taxation situation affects the marketing of automobiles is extremely difficult of perception, in view of the absence of reliable information on the subject. One phase of the subject does appear fairly definite; the present taxes will probably persist for a long time to come, even after the depression shall have become a memory. The automobile industry, in its many ramifications, offers a fallow field for taxation, even though it may have long since passed out of the luxury stage, and as there are no evidences that the taxes are confiscatory nor particularly vocal objections to the present system, it may be expected to persist for a long time, if not permanently.

The importance of the Used Car appears to have been measurably diminished during the depression due principally to the reduced supply of new cars coming on the market. And code regulations under the New Deal may serve to prevent its ever becoming

the menace to dealer welfare that it appeared to be prior to 1929. However, if changed sales and production philosophies should follow upon a return to better times, it might possibly regain some of its lost vigor and again present one of the major problems of the industry.

In concluding, it might be said that the depression has seen the two major factors in the automobile field, production and distribution, draw closer together, for their mutual benefit. The system, in its external appearances, still remains about the same, but some of the underlying concepts have changed, for the betterment, it would appear, of the industry. The field of producers has narrowed, and production is now centered very definitely in the lower price ranges. It may be presumed that a further narrowing is in prospect and that only the strongest will survive. However, as long as such individualists as Ford and Chrysler remain in the field, there appears to be no threat of monopoly. And indeed there is nothing naturally monopolistic about the industry. Perhaps the country needs only a few strong producers, perhaps it can be served and satisfied with fewer cars from which to choose. In any event this trend seems unmistakable and it is to be doubted that any new producers will enter the field. This should result in a more stabilized dealer body, and if present wholesale distributive practices remain in force, in a group in a greatly enhanced economic position. When more is known about the consumer and his ways, production and distribution can be more accurately geared to his wants, with probable results that will enhance his well being. And if the depression has either been a prime cause of this trend or hastened its growth, it will in some measure have counteracted some of its more ugly results. Cars are better and cheaper, and as the distributive system

becomes transformed into a channel for the economical movement of cars from the producers to the consumers the entire industry will be on a sounder basis, for a part of which, at least, it can thank the depression.

